
Wilton Town Council

Internal Audit Report 2017-18 (Final)

Claire Lingard
Consultant Auditor

For and on behalf of
Auditing Solutions Ltd

Background

Statute requires all town and parish councils to arrange for an independent internal audit examination of their accounting records and system of internal control and for the conclusions to be reported each year in the Annual Return.

This report sets out the work undertaken in relation to the 2017-18 financial year, which took place on the 27th October 2017 and the 15th June 2018.

Internal Audit Approach

In undertaking our review for the year, we have again had regard to the materiality of transactions and their susceptibility to potential misrecording or misrepresentation in the year-end Statement of Accounts / Annual Return. Our programme of cover is designed to afford appropriate assurance that the Council has appropriate and robust financial systems in place that operate in a manner to ensure effective probity of transactions and to afford a reasonable probability of identifying any material errors or possible abuse of the Council's own and the national statutory regulatory framework. The programme is also designed to facilitate our completion of the 'Internal Audit Report' as part of the Council's Annual Governance and Accountability Return (AGAR) process, which requires independent assurance over a number of internal control objectives.

Overall Conclusion

We have concluded, based on the completion of our programme of work for the year, that although the Council did, predominantly, maintain adequate and effective internal control arrangements that it failed to put in place arrangements for effective financial management during the year: The Clerk inadvertently followed the incorrect procurement procedure and failed to initiate the proper tender process in relation to three procurements and, resultantly, the Council has failed to comply with its adopted Financial Regulations and current EU legislation. We have detailed our findings and resultant recommendations in the body of our report; further summarised in the appended Action Plan.

We have completed and signed the 'Internal Audit Report', having concluded that not all the control objectives set out in that Report have been achieved within the financial year to a standard adequate to meet the needs of the Council. This has resulted in a negative assertion being made the Annual Internal Audit Report 2017-18 for objective 'B': **'This authority complied with its financial regulations, payments were supported by invoices, all expenditure was approved and VAT was appropriately accounted for'**; and, advise the Council that it is required to provide a negative assertion in Section 1, Box 3 of the Annual Governance and Accountability Return.

Detailed Report

Maintenance of Accounting Records & Bank Reconciliations

The Clerk uses the Rialtas Alpha accounting software to maintain the Council's accounting records. As indicated previously, the software is a market leader for local councils and, consequently, we consider it more than adequate to meet the accounting requirements of the Council providing both financial and management accounting detail at any stage of the financial year, together with automatically generating a year-end detailed Statement of Accounts and information for reporting at Section 2 of the Annual Return. The Council continues currently to operate two bank accounts with Lloyds TSB.

Our objective in this area is to ensure that the accounting records are being maintained accurately and in a timely manner and that no anomalous entries appear. We have consequently: -

- Noted that the Council received an unqualified External auditor report for FY 2016-17;
- Verified that the balances recorded in the certified Annual Return for FY 2016-17 have been correctly rolled forward to the current year in the accounting software;
- Ensured that an appropriate Cost Centre and Nominal Account Coding Schedule remains in place;
- Checked and agreed detail of all transactions in the bank / accounting records for the year to 31st March 2018 to supporting bank statements;
- Verified all bank reconciliation details for the full year to the 31st March 2018 on the combined bank accounts; and,
- Examined the nominal account posting detail for the year to date checking for any significant mis-postings.

Conclusions

There were an unusually large number of adjustments made in the cashbook for September 2017 variously described as 'Adj' or 'Adj entry'. We take this opportunity to remind the Clerk that all adjustments must be properly cross referenced to the original entry being adjusted in order that payment values may properly and easily identified.

Conclusions and recommendations made at the Interim Audit review

In reviewing the accounting records for the year, we noted that there was one significant miscoding where the PWLB loan repayment in the amount of £4,566.73 made on the 16th May 2017 was allocated the British Gas as a payee. There were also a small number data entry errors which were discussed with the Clerk and which were rectified whilst onsite; these are attached to this report as 'Appendix A'. We note however, that the financial ledger remains in at present. We shall extend our review process at our final visit, also ensuring the accurate disclosure of the combined year-end bank account balances in the Annual Return.

Once again, and as we have recommended in previous reports, it is our suggestion that the Clerk be provided with further training in use of the software. One specific area we have again noted is that the year's budget has not been entered to the software resulting in the need for budget detail to be exported manually to a spreadsheet to provide comparative performance data. We consider this to be wasted effort and poor use of the Clerk's time when the detail is readily

available from the software at any stage of the year, once budget data has been input, purely by pressing a few keys and printing off the appropriate budget performance detail.

Whilst we understand the intent to make provision for appropriate training within the 2018/19 budget, we urge that this is not overlooked and that arrangements are made for that training to take place early in that financial year in order that maximum benefit is gained from the software. Consequently, we reiterate our previous recommendation in this respect.

R1. *The Council / Clerk should ensure that further training in use of the Alpha Rialtas software is provided to the Clerk in order to maximise the available benefits that the software offers. Response: Not implemented.*

R2. *Full use of the software's management accounts and budget reporting facility should be made in order to avoid duplicated effort for the Clerk in transferring data to spreadsheets in order to report budget performance during the year (the software will generate this information at any stage of the year with a few keyboard depressions). Response: Not implemented.*

Review of Corporate Governance

Our objective here is to ensure that the Council has a robust regulatory framework in place; that Council and Committee meetings are conducted in accordance with the adopted Standing Orders, that financial transactions are made in accordance with the extant Financial Regulations and that, as far as we are able to ascertain, no actions of a potentially unlawful nature have been or are being considered for implementation.

- Have previously noted in our final report for FY 2016/17 that the Financial Regulations and Standing Orders were reviewed and readopted at the 01st November 2016 meeting of the Full Council with the tender limit correctly set at £25K;
- Noted that the council adopted General Power of Competence during the 16th May meeting of the Full Council, until the next elections in 2021. However, following the resignation of the Clerk which will become effective on the 31st August 2018, the Council will lose its qualification to use the General Power of Competence unless it has employed a new Clerk who is already in possession of that qualification by that time;
- Noted that a Deputy Clerk has been appointed who is not CiLCA qualified; and,
- Completed our examination of the minutes of Full Council and its Committees to the 31st March 2018.

Conclusions

As noted in our findings above, that the Council's long serving Clerk has resigned and will leave the Council's employment on the 31st August 2018. We take this to remind members that the Council will lose its qualification to use the General Power of Competence, other than in relation to ongoing projects upon the Clerk's departure unless a new Clerk is appointed by that date who is already CiLCA qualified. In the event that the Council loses its qualification to use the General Power of Competence it will, once again, have to use the delegated powers, such as S.137 to award grants, etc.

Conclusions and recommendations made at the Interim Audit

We are required to report that the following procurements have been made with Courtstall Services Ltd - £70,200 plus VAT, Kompan Ltd - £30,188.65 plus VAT and Sutcliffe Play South

West - £40,073 plus VAT were not undertaken as part of a formal tender process: From the 1st April 2015, EU Legislation mandated that all tenders with a value in excess of £25,000 be advertised on the Government's 'Contracts Finder' website. We have noted that the Clerk attempted to obtain quotations from known contractors, but the process that was followed by the Clerk was one for procurements of less than £25,000.

The appropriate decision-making process was not followed, resulting in a noncompliance by the Council, and the payments being made by it being ultra vires, i.e. payments that the council does not have the lawful power to make. This means that the council cannot make a positive response in Box 3 of the 2017/18 Annual Governance Statement which requires Councils to 'have only done what it has the legal power to do and has complied with proper practices in doing so. We shall continue to monitor this area at the year-end audit.

*R3. In order to comply with EU Legislation, and the Council's own Financial Regulations and Standing Orders, ALL tenders with a value in excess of £25,000 MUST be advertised on the Government's Contracts Finder website without exception. **Response: A new Procurement Policy was developed in FY2017-18 and subsequently adopted by the Full Council in June 2018.***

*R4. The Clerk should attend a local authorities' procurement course to ensure that she is fully appraised of the strict requirements for local authority procurement. **Response: Not implemented.***

Review of Expenditure

Our aim here is to ensure that: -

- Council resources are released in accordance with the Council's approved procedures and budgets;
- Appropriate procedures are in place to ensure compliance with the Council's Standing Orders and Financial Regulations with regard to tendering and quotation action;
- Payments are supported by appropriate documentation, either in the form of an original trade invoice or other appropriate form of document confirming the payment as due and/or an acknowledgement of receipt, where no other form of invoice is available;
- All discounts due on goods and services supplied are identified and appropriate action taken to secure the discount;
- The correct expense codes have been applied to invoices when processed;
- VAT has been appropriately identified and coded to the control account for periodic recovery; and,
- Noted that the Council had made three procurements in municipal year 2017-18 which should have triggered the formal tender process as required by EU Legislation, having exceeded the £25K threshold which is also specified in the Council's Financial Regulations but did not.

We have considered the Council's approach to the review and authorisation of payments for release and are pleased to note the continued use of the certification stamp on invoices presented to members and that members are now initialling all payment documents.

We have examined all payments made in the financial year to 31st March 2018 for compliance with the above criteria noting that the anomalous entries that we had recorded in 'Appendix A' of our Interim report had been properly corrected and that no further anomalous entries had been made.

We are pleased to note that the Clerk has implemented expenses claim form which is now used by members to complete to reclaim out of pocket expenses, travel costs and mileage for reimbursement and that these expenses have been entered fully into Rialtas / Alpha.

Once again, and as included in previous audit reports, we advise that the Rialtas / Alpha accounts' software has the facility to provide two optional prints of payments between date ranges and, in order to ensure that all payments are identified for member approval and to also reduce the workload of the Clerk in preparing a typed schedule, we suggest this software facility be should be applied.

Finally, we note that the Council had made three procurements in municipal year 2017-18 which should have triggered the formal tender process as required by EU Legislation, having exceeded the £25K threshold which is also specified in the Council's Financial Regulations but did not.

Conclusions

No issues have arisen in this area of our Final Update Audit review warranting formal comment or recommendation.

Conclusions and recommendations made at the Interim Audit review

A small number of anomalies have been identified and are listed in Appendix A with the response from the Clerk in relation to each item.

*R5. The identified anomalies in the processing of payments, as detailed in 'Appendix A', should be addressed and corrected accordingly where it is appropriate to do so. **Response: All anomalies identified in Appendix A had been properly corrected when examined during the Final Update review.***

Assessment and Management of Risk

Our aim here is to ensure that the Council has put in place appropriate arrangements to identify all potential areas of risk of both a financial and health and safety nature, whilst also ensuring that appropriate arrangements exist to monitor and manage those risks in order to minimise the opportunity for their coming to fruition. To this end, we have: -

- Noted that the revised Health and Safety and Financial Risk assessment was presented to members, the resultant document being adopted formally at the March 2017 meeting and that pending revision the assessment is due to be considered by members in the March 2018 of the Full Council;
- Examined the current year's Council's insurance policy with Zurich Municipal to ensure that appropriate cover is in place, noting that Public and Employer's Liability stand at £10 million, Hirer's Liability at £2 million and Fidelity Guarantee cover at £100,000, all of which we consider appropriate for the Council's present requirements; and,
- Examined the Council's arrangements for the regular inspection of playgrounds and recreation areas noting that the Council has four facilities currently: Minster Street Adventure trail, tennis courts and children's playground, Bull Bridge recreation ground and

children's playground, Wishford Road recreation ground and ball-wall and Castle Meadow football pitches, Cricket pitches, outdoor adult gym and Pavilion. The Council is currently in the process of taking on the management of two additional playgrounds.

Weekly inspections of all facilities are undertaken by idverde, a subcontractor, and the resultant reports sent to the Clerk for filing. Annual reports are completed by Zurich resulting in a substantial reduction in insurance cover costs and again, the reports are sent to the Clerk for retention. The Clerk advises me that she is in the process of drafting a Playgrounds inspection policy which will include how the report outcomes are fed into a Replacement, Repair and Maintenance programme and to the Health and Safety Risk assessment. Currently records are kept for a period of thirty years, rather than the 21 years recommended by RoSPA and major insurance companies.

Conclusion

No issues have arisen in this area of our Final Update Audit review warranting formal comment or recommendation.

Budgetary Control and Reserves

Our objective here is to ensure that the Council has a robust procedure in place for identifying and approving its future budgetary requirements and the value of precept to be drawn down from the Unitary Authority: also, that an effective reporting and monitoring process is in place. We also aim to ensure that the Council retains appropriate funds in general and earmarked reserves to finance its ongoing spending plans, whilst retaining appropriate sums to cover any unplanned expenditure that might arise.

We note that, following a robust Budget setting and Precept determination process at the Finance & General Purpose committee, the Council resolved to approve the Budget and the Precept requirement for FY 2018-19, the latter being set at £204,869 in the January 2018 meeting of the Full council.

We note that despite previous assurances received from the Chairman, the Clerk continues to produce a monthly spreadsheet analysis comparing the approved budget with actual expenditure incurred throughout the year. As indicated above, the Rialtas Alpha software will generate comparative performance information automatically once the budget has been input, thus reducing the Clerk's workload.

We have reviewed the year-end budget outturn, as recorded in the Alpha software examining and obtained appropriate explanations for the few significant variances. The total reserves as at 31st March 2017 have decreased to £88,113 (£89,000 as at 31st March 2017), which equates to slightly more than 2.5 months' revenue spending at the prior year level, which sits below the generally recognised CiPFA guidance of between three and six months' revenue spending. We also note that no earmarked reserves were in place at the year end although the Council had previously advised that this would be the case.

Conclusions

We have previously noted the Council's intention to determine and identify formally reserves earmarked for specific projects during FY 2017-18, however, this process has not taken place.

The level of General Reserve was beneath the lower level specified in CiPFA guidelines. Members are encouraged to review this position during FY 2018-19 to ensure that the General Reserve is set at a level appropriate for the Councils ongoing financial requirements.

Review of Income

In this area of review, we aim to ensure that income due to the Council is identified, invoiced (where applicable) in accordance with the approved sale of fees and charges and recovered within a reasonable time scale, also that it is banked promptly in accordance with the Council's Financial Regulations.

We have, as previously, reviewed a sample of the Council's non-precept income sources, also examining the detailed transaction reports to date to ensure that all income has been identified appropriately and recorded accurately and are pleased to report that no issues arise at this time.

We have again examined the Clerk's diary identifying bookings of the sports pavilion and pitches for the year to 30th September 2017, noting that invoices are raised for such bookings. We have examined the invoices raised in respect of this period confirming that the appropriate fees have been charged. Although a diary is maintained, the Clerk continues to manage bookings via by e-mail, which she is able to relate to the bookings diary, rather than in formal records.

We note that the rental income from the tenant in the Council's offices, Harvey & Snowden, remains regular and that the tenancy agreement is due for review in March 2018.

As we have commented in previous report, it is important that a formal and appropriate audit trail supporting all hires is maintained, also that hirers complete an appropriate hire agreement form acknowledging acceptance of the hire terms and conditions, as, without such agreement, should any damage be done to the pavilion, the Council would be hard pressed to take appropriate legal action and make an effective claim for damages on the hirer.

Conclusions

No issues have arisen in this area of our Final Update Audit review warranting formal comment or recommendation.

Conclusions and Recommendations made at the Interim Audit review

Overall, whilst we consider the controls over income arising from facilities hire and under tenancy agreements to be generally sound, we consider that the absence of effective documentation evidencing control over the income leaves the Council at a considerable degree of risk should any unfortunate incident result in the Clerk's long-term absence and also affords no clear audit trail from the booking diary through to the recovery of income. We therefore consider it essential that fully detailed, cross-referenced and appropriately filed supporting documentation is maintained in relation to the identification of council services and facility hire, together with the acquisition of signed hire agreement forms and an effective system of cross-referencing the primary documents through to recovery of income due and its subsequent banking.

As a minimum, the following procedures should be implemented in relation to facilities hire: -

- *The booking diary should include a cross-reference to the invoice raised in respect of each booking and ideally the receipt / bank paying-in-slip reference number;*
- *A formal signed hire agreement and acceptance of hire terms and conditions should be obtained for each individual or block of hires;*
- *A copy of each invoice should be printed and retained on file;*
- *On receipt of payment, the invoices should be annotated with the date of receipt and receipt or bank deposit slip reference number.*

R6. *Full documentation relating to hire of the sports pavilion and associated facilities should be printed and held on file, with full and effective cross-referencing between the booking diary, invoice raised and date of income recovery and banking, as indicated in the body of the report. Response: Fully implemented and in compliance with GDPR legislation.*

Petty Cash Account

The Council no longer operates a petty cash account, any out-of-pocket expenses being reimbursed by separate payment as with other trade payments. Resultantly, there are no issues arising in this area of our review warranting formal comment or recommendation.

Salaries and Wages

In examining the Council's payroll function, we aim to confirm that extant legislation is being appropriately observed as regards adherence to the requirements of HM Revenue and Customs (HMRC) legislation as regards the deduction and payment over of income tax and NI contributions, together with meeting the requirements of the local government pension scheme, as last amended with effect from 1st April 2017, as regards employee contribution bandings. To meet the above objective, we have: -

- Reviewed the Council's payroll procedures;
- Checked to ensure that the Council has reviewed and approved appropriate pay scales for staff, noting adoption of the national pay award detail announced only recently;
- For all staff on the payroll we have checked and agreed the amounts paid to individuals by reference to the NJC schedule, examining payments made in August 2017;
- Ensured that PAYE, NIC and superannuation deductions have been made accurately by reference to the HMRC Basic PAYE Tools software and the current Pension Fund contribution bands;
- Ensured that appropriate amounts have been paid to HMRC accurately and Pension Fund Administrators accurately and in a timely manner;
- Noted that there is no evidence that the recommendation in the Council's Strategy Plan that the Clerk's role be made full time and a part time assistant appointed has been formally discussed; and,
- Noted that Ancillary Staff have all been provided with Employment Contracts.

Conclusions

No issues have arisen in this area of our Final Update Audit review warranting formal comment or recommendation.

Conclusions and recommendation made at the Interim Audit review

We are pleased to record that no issues arise in this area with the exception that the Clerk's hours and the creation of a Clerk's Assistant role have not been reviewed and that Ancillary Staff are still not in receipt of Contracts of Employment which we were advised would be forthcoming during our year end audit for the 2016/17 municipal year.

R7. *The Clerk's working hours and the creation of a Clerk's Assistant role to be reviewed. Response: Implemented.*

R8. *Ancillary Staff to be given appropriate Contracts of Employment with copies retained on their individual HR files. Response: Implemented.*

Asset Registers

The Governance and Accountability Manual requires all councils to develop and maintain a register of assets identifying detail of all land, buildings, vehicles, furniture and equipment owned by the Council. As pointed out previously, the Annual Return reporting arrangements in respect of asset values were amended in 2010, following issue of an updated Guide to Governance and Accountability. That guidance now requires asset values to be reported in the Annual Return at purchase cost or, where that value is unknown at the previous year's Return level uplifted or decreased to reflect the acquisition of any new assets or disposals.

We have examined the Asset Register in place as at 31st March 2018 noting the comprehensive nature of its content and consider that the Asset Register has been accurately updated to record the acquisitions and disposals during FY 2017/18. We have verified that the revised total value of £1,826,840 has been correctly reported in the year's Annual Governance and Accountability Return at Box 9 of Section 2.

Conclusions

No issues have arisen in this area of our Final Update Audit review warranting formal comment or recommendation.

Investments and Loans

The Council has no surplus funds at present placed in short or long-term investments. We have verified detail of the two PWLB loan repayment instalments in the current year to the third party PWLB demand notices, also ensuring the accurate recording of the residual loan liability in the annual Return by reference to the PWLB website register of all council's outstanding loans as at 31st March 2018.

Conclusions

No issues have arisen in this area of our Final Update Audit review warranting formal comment or recommendation.

Statement of Accounts and Annual Governance & Accountability Return

The Accounts and Audit Regulations, as amended periodically, require all councils to prepare annually a Statement of Accounts, which is now in the form of the Annual Governance and Accountability Return at Section 2, which is, together with the Annual Governance Statement at Section 1, subject to independent external audit examination and certification.

As part of our review process, we have examined the Council's procedures in relation to the identification of detail for inclusion in Section 2 of the AGAR, which is generated automatically by the Rialtas accounting software, and is used by the Clerk & RFO to provide the accounting statements. We have consequently agreed detail therein to Section 2 of the 2017-18 Annual Governance & Accountability.

Conclusions

We are pleased to record that no issues arise in this area and, based on the work undertaken during our review for the year, we have "signed off" the Internal Audit Report in the year's Annual Governance and Accountability Return assigning positive assurances in all areas, other than in relation to Box B in relation to compliance with the Council's Financial Regulations. The Council will, similarly, need to provide a negative assurance in Box 3 at Section 1 of the Annual Governance & Accountability Return.

Rec. No	Recommendation	Response
Review of Accounting Arrangements and bank reconciliations		
R1	The Council / Clerk should ensure that further training in use of the Alpha Rialtas software is provided to the Clerk in order to maximise the available benefits that the software offers.	<i>Response: Not implemented</i>
R2	Full use of the software's management accounts and budget reporting facility should be made in order to avoid duplicated effort for the Clerk in transferring data to spreadsheets in order to report budget performance during the year (the software will generate this information at any stage of the year with a few keyboard depressions).	<i>Response: Not implemented</i>
Review of Corporate Governance		
R3	In order to comply with EU Legislation, and the Council's own Financial Regulations and Standing Orders, ALL tenders with a value in excess of £25,000 MUST be advertised on the Government's Contracts Finder website without exception.	<i>Response: A new Procurement Policy was developed in FY2017-18 and subsequently adopted by the Full Council in June 2018.</i>
R4	The Clerk should attend a local authorities' procurement course to ensure that she is fully appraised of the strict requirements for local authority procurement.	<i>Response: Implemented.</i>
Review of Payment Procedures; Approvals and VAT identification & Recovery		
R5	The identified anomalies in the processing of payments, as detailed in Appendix A, should be addressed and corrected accordingly.	<i>Response: All anomalies identified in Appendix A had been properly corrected when examined during the Final Update review.</i>
Review of Income Control Systems		
R6	Full documentation relating to hire of the sports pavilion and associated facilities should be printed and held on file, with full and effective cross-referencing between the booking diary, invoice raised and date of income recovery and banking, as indicated in the body of the report.	<i>Response: Fully implemented and in compliance with GDPR legislation.</i>
Review of Salaries and Wages		
R7	The Clerk's working hours and the creation of a Clerk's Assistant role to be reviewed.	<i>Response: Implemented.</i>
R8	Ancillary Staff to be given appropriate Contracts of Employment with copies retained on their individual HR files.	<i>Response: Implemented.</i>
Asset Register		
R9	The asset register should be revamped to identify all Council assets, including new additions each year, identifying both the nominal value (as per the Annual Return at purchase cost) and insurance value, which will help members assess potential future years' budgets in relation to replacement costs.	<i>Response: Asset Register has been updated.</i>